

MARKET CONDUCT EXAMINATION REPORT
PROGRESSIVE DIRECT INSURANCE COMPANY

NAIC #16322

As of April 30, 2010

Karen Weldin Stewart, CIR-ML
Commissioner




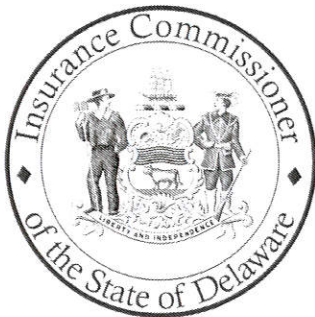
Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of April 30, 2010 on

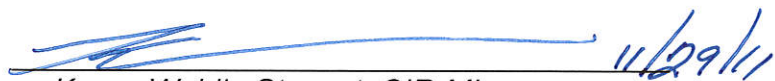
PROGRESSIVE DIRECT INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: 



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.


Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



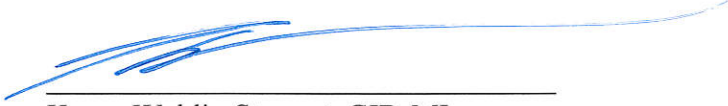
Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
PROGRESSIVE DIRECT INSURANCE COMPANY
AS OF
April 30, 2010

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

March 20, 2011

Honorable Karen Weldin Stewart CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 09-532, and pursuant to statutory provisions including 18 *Del. C.* §318-322, a market conduct examination has been conducted of the affairs and practices of:

Progressive Direct Insurance Company

The examination was performed as of April 30, 2010. Progressive Northern Insurance Company, hereinafter referred to as the "Company" is incorporated under the laws of the State of Wisconsin. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company locations:

6300 Wilson Mills Road, Mayfield Village, Ohio 44143

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

The examination was a market conduct examination of the following business areas: Company Operations and Management; Complaint Handling; Marketing and Sales; Policyholder Services; and Underwriting and Rating

The examination reviewed the Company's activities related to Private Passenger automobile coverage. Areas reviewed included Underwriting and Rating Practices related to discounts/surcharges, tier rating, the non-renewal of policies that have been rewritten in an affiliated company, the marketing of the discounts and surcharges, the consistent application of the discounts and surcharges according to the rate filings filed with the Delaware Department of Insurance, complaints and advertising.

There were no areas of concern noted during the examination.

SCOPE OF EXAMINATION

This examination report is a report by exception rather than a report by test. This means that only those areas where recommendations are suggested are described and results indicated.

The experience period for this examination is November 1, 2009 through April 30, 2010.

HISTORY AND PROFILE

Progressive Halcyon Insurance Company changed its name to Progressive Direct Insurance Company on March 13, 2006 under the laws of the State of Ohio. Progressive Direct allows the customer to buy policies online and compare rates with other companies. Progressive Direct is owned by The Progressive Corporation, which is a publicly traded holding company. Operations for Delaware are serviced primarily through its office in Mayfield Village, Ohio.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Property and Casualty Insurer found in the Delaware Market Conduct Examiners' Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the *NAIC's Market Regulation Handbook* (2008 edition).

The types of review used in this examination fall into three general categories: generic, sample, and electronic.

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC's Market Regulation Handbook*. Samples of underwriting files and claims files were reviewed to determine that the processes described by the Company are actually used by the Company.

An "electronic" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

In this examination, the standards were tested through a combination of "generic" review and sample review.

Each Standard contains a brief description of the purpose or reason for the Standard. The examiners' "Observations" are noted following each Standard tested. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate corresponding Standard.

EXAMINATION FINDINGS

The following examination areas were reviewed and deemed as passing without notable exceptions:

Company Operations and Management – 2008 NAIC MRH Chapter XVI

- Standard 7 - Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.
- Standard 8 – The Company is licensed for the lines of business that are being written.
- Standard 9 – The Company cooperates on a timely basis with the examiners performing the examination.
- Standard 10 - The regulated entity has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions so as to minimize any improper intrusion into the privacy of applicants and policyholders.
- Standard 11 - The regulated entity has developed and implemented written policies, standards and procedures for the management of insurance information.
- Standard 12 - The regulated entity has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

- Standard 13 - The regulated entity provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.
- Standard 14 - If the regulated entity discloses information subject to an opt out right, the regulated entity has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the regulated entity provides opt out notices to its customers and other affected consumers.
- Standard 15 - The regulated entity's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.
- Standard 16 - In states promulgating the health information provisions of the NAIC model regulation, or providing equivalent protection through other substantially similar laws under the jurisdiction of the insurance department, the regulated entity has policies and procedures in place so that nonpublic personal health information will not be disclosed, except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.
- Standard 17 - Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.

Complaint Handling – 2008 NAIC MRH Chapter XVI

- Standard 1 – All complaints are recorded in the required format on the regulated entity's complaint register.
- Standard 2 – The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.
- Standard 3 - The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations and contract language.
- Standard 4 - The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

Marketing and Sales – 2008 NAIC MRH Chapter XVI

- Standard 1 - All advertising and sales materials are in compliance with applicable statutes, rules and regulations.
- Standard 2 - Regulated entity internal producer training materials are in compliance with applicable statutes, rules and regulations.
- Standard 3 - Regulated entity communications to producers are in compliance with applicable statutes, rules and regulations.

Policyholder Services – 2008 NAIC MRH Chapter XVI

- Standard 1 - Premium notices and billing notices are sent out with an adequate amount of advance notice.
- Standard 2 - Policy issuance and insured-requested cancellations are timely.
- Standard 3 - All correspondence directed to the regulated entity is answered in a timely and responsive manner by the appropriate department.
- Standard 5 - Policy transactions are processed accurately and completely.

Underwriting and Rating – 2008 NAIC MRH Chapter XVI

- Standard 1 – The rates charged for the policy coverage are in accordance with filed rates or the regulated entity’s rating plan.
- Standard 2 - All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations.
- Standard 3 - The regulated entity does not permit illegal rebating, commission-cutting or inducements.
- Standard 4 - The regulated entity’s underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations and regulated entity guidelines in the selection of risks.
- Standard 5 - All forms, including contracts, riders, endorsement forms and certificates are filed with the insurance department, if applicable.
- Standard 6 - Policies, riders and endorsements are issued or renewed accurately, timely and completely.
- Standard 7 – Rejections and declinations are not unfairly discriminatory.
- Standard 8 - Cancellation/nonrenewal, discontinuance and declination notices comply with policy provisions, state laws and the regulated entity’s guidelines.

Underwriting and Rating – 2008 NAIC MRH Chapter XVII

- Standard 1 – Credits, debits and deviations are consistently applied on a non-discriminatory basis.
- Standard 8 - Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.
- Standard 10 - The regulated entity’s underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations and the regulated entity’s guidelines in the selection of risks.
- Standard 11 - All forms and endorsements forming a part of the contract are listed on the declaration page and should be filed with the insurance department (if applicable).

- Standard 12 - Regulated entity verifies that the VIN number submitted with the application is valid and that the correct symbol is utilized.
- Standard 13 - The regulated entity does not engage in collusive or anti-competitive underwriting practices.
- Standard 14 – The regulated entity underwriting practices are not unfairly discriminatory. The regulated entity adheres to applicable statutes, rules and regulations in application of mass marketing plans.
- Standard 16 - Cancellation/nonrenewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract.
- Standard 17 – Statistical Coding - all policies are correctly coded.

ADVERTISING

Objective: Determine if the Company uses advertising pertaining to the discounts available. Review the advertising used that may impact Delaware consumers.

Observations: The examiners reviewed 11 pieces of advertisements, each containing several documents, used during the examination period to determine if the Company identified itself to customers, appropriately noted the source of statistics and accurately described the products and services offered. The advertisements included several radio and television broadcast scripts, general audience marketing, website advertising and direct mail advertising. The Company's website listed six available discounts, with the statement that they offer dozens of other discounts depending on the state the insured resides in. No exceptions were noted.

CONCLUSION

The review of Private Passenger Auto coverage performed resulted in no exceptions or problems noted. The examination was conducted by Cyndy Campbell, Ron Poplos, Candace Walker, and Linda Miller supervised by Shelly Schuman and is respectfully submitted,



Cyndy Campbell, CIE, MCM, ACS, AIRC,
AIAA, API, AU, AIS, ACP, CCP, AINS
Market Conduct Examiner-in-Charge
Insurance Department
State of Delaware